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# Innovative Tourism Destinations: Collaboration Culture and Absorptive Capacity

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## **Innovative Tourism Destinations: Collaboration Culture and Absorptive Capacity**

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### **ABSTRACT**

*The role of destination marketing organizations changed considerably over the past few decades. Today, DMOs are not only marketers of a certain area, but are also required to constantly develop new tourism offerings to keep pace with fast changing consumer demands and a volatile economic environment. The goal of this study is to better understand how collaboration with external partners contributes to organizational learning and successful innovation development. The authors studied American DMOs to evaluate the impact of organizational settings for innovation and collaboration on partnership-driven innovation. It was found that the assimilation of new knowledge is a key process to harness new knowledge resources to develop successful innovations.*

**Keywords:** *innovation, destination marketing organization, absorptive capacity.*

### **INTRODUCTION**

For nearly thirty years researchers have used the concept of absorptive capacity to understand the relationship between organizational knowledge and innovation (Cohen & Levinthal, 1990; Hurley & Hult, 1998). Gopalakrishnan (1998) defines innovation as the adoption of an idea or behavior, which could be a system, policy, program, device, process, product or service that is new to the adopting organization. Innovation has also been described as “the generation, acceptance and implementation of new ideas, processes, products and services” (Thompson 1965, p. 7) or as “the successful implementation of creative ideas within an organization” (Amabile et al. 1996, p. 45). Knowledge and innovation are inextricably linked as innovation is the application of new knowledge. This application leads to the creation and implementation of new processes and services. A key concept to understand the use of new knowledge is absorptive capacity. Incoming spillovers i.e. external knowledge, increase the attractiveness of cooperation for the firm, (López-Fernández, Serrano-Bedia, & García-Piqueres, 2008) provided the external knowledge can contribute to success. While absorptive capacity has been credited with the collection and application of knowledge, research so far has not dismantled the black box of how new knowledge may be applied for innovation. With services becoming more reliant on knowledge as a key strategic tool for the creation, development and

delivery of new and innovative services it is important to understand the organizational ‘thought processes’ to exploit external knowledge (Ipe, 2003). Services’ unique characteristics suggest that, a componential analysis of AC could provide more meaningful structure to studying the process within service organizations. Especially the increased pressure for tourism service providers, such as destination marketing organizations (DMOs), to collaborate with others raises the importance of extracting and applying the most useful knowledge to develop successful new tourism services. For DMOs, thus, a critical issue is to understand the various collaborative and learning capabilities required to develop service innovations for destination competitive advantage. The goal of this study is to develop and test a model to understand which aspects of knowledge acquisition and application are the most influential in driving innovation success.

## LITERATURE REVIEW

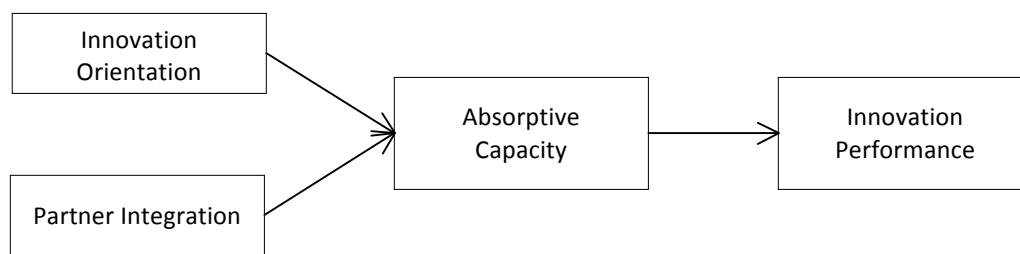


Figure 1. Research model

### Innovation orientation

Innovation orientation is an organization’s openness to new ideas, practices, products and processes (Chen, Tsou & Huang, 2009). As such it is a determinant of organizational innovation as it links innovation openness to the process of knowledge creation, organizational learning, change, adaptation and successful innovation performance (Hurley and Hult, 1998). Innovation orientation refers to a philosophy of learning that results in greater openness to thinking, questioning, and agitating towards not only new and improved levels of individual and firm performance, but also towards developing competitive advantage. Following the importance of knowledge for innovation (Winter 2003) this study focuses on the knowledge resources of the firm. The employment of organizational resources to effectively detect and encourage new ideas, seek out new resources determines the extent to which an organization is likely to successfully develop new innovations. Hence, while tapping external knowledge sources is critical it is even more important to exploit these sources to nurture the absorptive capacity process. Siguaw et al. (2006) suggest that this multidimensional knowledge structure and its componential learning philosophy provide a link between innovation orientation and absorptive capacity. The more an organization is geared towards openness for new elements, the easier it is for the organization to acquire and assimilate this new knowledge:

**H1a:** Innovation orientation is positively related to acquisition.

**H1b:** Innovation orientation is positively related to assimilation.

## **Absorptive capacity**

Cohen and Levinthal (1990) define absorptive capacity (AC) as “the ability of a firm to recognize the value of new external information, assimilate it and apply it to commercial ends” (p. 130). Absorptive capacity has been studied in a number of settings including strategic management, technology management, international business and organizational economics (Zahra & George, 2002). It is often defined as a dynamic capability (Lane, Koka, & Pathak, 2006) which effectively impacts the organization’s ability to develop its strategic advantage. Sun and Anderson (2010) suggest that AC supports the organizational objectives of the firm within its present strategic setting. Organizations that successfully exploit external knowledge should be more likely to meet their organizational objectives. The authors acknowledge that the absorptive capacity and organizational learning literature have largely shared a level of parallelism throughout the management and business literature. Moreover, both concepts have been linked to enhanced performance within the context of innovation and market orientation (Slater and Narver 1995; Hurley and Hult 1998; Jimenez-Jimenez et al. 2008) and others have attempted to integrate the two concepts e.g. (Sun & Anderson, 2010). This study, however, focuses on absorptive capacity as it better represents the individual components that drive organizational thinking. In particular research by Zahra and George (2002) suggests that absorptive capacity consists of two dimensions: potential and realized AC. Potential absorptive capacity refers to an organization’s ability to acquire and assimilate external knowledge whereas realized absorptive capacity refers to the ability to effectively transform this knowledge into usable form, and exploit innovative practices (Jansen, Bosch, & Volberda, 2005). It is argued that organizational processes to make use of external knowledge result in successful innovations.

### **Potential absorptive capacity - Knowledge Acquisition and Assimilation**

Knowledge acquisition is the process by which knowledge from sources outside the organization is obtained (Huber, 1991; Jansen, et al., 2005). These activities include tapping expertise from research institutions; knowledge agencies such as trade boards and occasions on which employees attend exhibitions and training symposia. Knowledge acquisition also refers to working mechanisms which an organization puts in place to capture operational information such as customer feedback cards, evaluation forms and web blogs. Knowledge assimilation relates to the interaction of the newly acquired knowledge with the existing knowledge base of the firm. It is thus identified as a dynamic capability (Easterby-Smith et al. 2008) and perhaps the most direct example of organizational learning (Sun & Anderson, 2010). An organizations capability to harness external knowledge and attempting to incorporate it into the organizational structure and knowledge base is a determinant of realized absorptive capacity.

**H2a:** Knowledge acquisition has a positive effect on transformation.

**H2b:** Knowledge acquisition has a positive effect on exploitation.

**H2c:** Knowledge assimilation has a positive effect on transformation.

**H2d:** Knowledge assimilation has a positive effect on exploitation.

### **Realized absorptive capacity - Transformation and Exploitation**

Zahra and George (2002) refer to transformation as the development and refinement of routines that facilitate combining existing knowledge and the newly acquired and assimilated knowledge. The authors further refer to exploitation as an organizational capability that allows

forms to refine, extend and leverage existing competencies or to create new ones by incorporating acquired and transformed knowledge into its operations. Realized absorptive capacity focuses on an organization's use and implementation of knowledge and presents a nexus at which external knowledge is translated into practical innovation outcomes. Transformation and exploitation capabilities enable an organization to use new external knowledge for organizational decision making and thus also for the innovation process. In other words, the organization is able to integrate new ideas into routines which allow for the new ideas to be realized through innovation (Cohen and Levinthal, 1990).

**H3a:** Knowledge acquisition has a positive effect on transformation and exploitation.

**H3b:** Knowledge assimilation has a positive effect on transformation and exploitation.

### **Innovation performance**

Innovation performance refers to the success of innovations and is often measured through direct effects, such as increase sales and customer satisfaction, and indirect effects such as cross sales, customer loyalty or the creations of windows of opportunities (de Brentani, 1989). Product superiority is the number one factor influencing commercial success and that the development of successful new services is driven by organizational settings towards innovation, such as well-defined innovation procedures and also an orientation towards innovation (Cooper & Kleinschmidt, 1987; de Brentani, 1989). Firms that consistently invest in assimilating and exploiting new external knowledge are likely to successfully generate innovative products and services to meet the needs of the markets (Kostopoulos et al., 2011).

### **The role of partners in the innovation process**

Organizational research suggests that interorganizational networks and supply chains can be rewarding for firms to gain access to knowledge to facilitate learning processes, and to foster knowledge creation (Volderba et. al., 2010). Firms are increasingly relying on knowledge acquired from other firms to facilitate the development of their own capabilities (Lane and Lubatkin, 1998). The ability to exploit external knowledge is a critical component of innovative capabilities (Cohen & Levinthal, 1990). Of even greater importance is the ability to derive value from these partnerships by integrating partners into the organizational innovation development process.

## **METHODOLOGY**

Absorptive capacity for destination innovation provides an opportunity for tapping into tourism intelligence, adapting to changing tourist needs, influencing and responding to competitive forces and other seasonal tourism factors. Tourism research for the most part, however, has failed to coalesce around a conceptual framing of knowledge management for tourism innovation, with only a handful of propositions borrowed from the extant organizational literature.

Survey items were adopted from previous studies on absorptive capacity (Pérez López et al., 2004), interorganizational relationships in tourism (Zach and Racherla, 2011) and innovation

(de Brentani, 2001). The sample frame for this survey comprised 2,000 American DMOs. The survey was pilot tested and after minor revisions distributed. The final survey was distributed with one invitation and three reminders over a 4-week period. A total of 103 usable responses (about 5% response rate) were collected. SEM in MPlus was used to analyze the mode. Structural equation modeling was found appropriate for this study, given the causal relationships between the constructs.

## FINDINGS / RESULTS

More than half of the respondents (approximately 57%) represent DMOs and CVBs having (48%) and (41%) area responsibilities for cities and counties respectively. Of the 103 organizations, (67%) operate on overall budgets of up to \$1,000,000.00 and approximately (58%) carry five or fewer full-time employees. The majority of respondents are smaller organizations with annual budgets of less than \$750,000 (56%) and between one and four full time employees (55%).

Table 1: Profile of Destination Marketing Organizations in the Sample

<b>Type</b>	<b>%</b>	<b>Full-time employees</b>	<b>%</b>
Destination Marketing Organization	57.3	None	1.9
Convention & Visitors Bureau	50.5	1 to 2	28.2
Chamber of Commerce	14.6	3 to 4	24.3
Economic Development Agency	11.7	5 to 6	10.7
Travel Agency	6.8	7 to 9	6.8
Marketing Agency	8.7	10 to 19	10.7
Technical Support Agency	5.8	20 to 49	8.7
Other	5.8	50 to 99	1.0
		200 and above	1.9
<b>Annual budget</b>			
Under \$ 100,000	13.6	<b>Area represented</b>	
\$ 100,001 - \$ 250,000	18.4		
\$ 250,001 - \$ 500,000	11.7		
\$ 500,001 - \$ 750,000	12.6		
\$ 750,001 - \$ 1,000,000	10.7		
\$ 1,000,001 - \$ 2,000,000	10.7		
\$ 2,000,001 - \$ 3,000,000	7.8		
\$ 3,000,001 - \$ 5,000,000	4.9		
\$ 5,000,001 - \$ 10,000,000	4.9		
\$10,000,001 - \$ 15,000,000	1.9		
\$ 15,000,001 - \$ 20,000,000	1.0		
\$ 20,000,001 and more	1.9		

Structural equation modeling provided an acceptable model fit (CFI=0.834, SRMR=0.089, RMSEA=0.0). It was found that partner collaboration for innovation has a significant positive effect on knowledge acquisition and assimilation (path estimates 0.329 and 0.157, respectively). Innovation orientation, i.e. openness towards new ideas, however, was found to have a significant relationship only with knowledge assimilation (path estimate 0.744), but not with knowledge acquisition. Knowledge assimilation has a significant relationship with

knowledge transfer (path estimate 0.753) and exploitation (0.716). Last, the overall performance of the new service development program is driven by both transformation (0.493) and exploitation (0.395). The  $R^2$  for all latent constructs except acquisition indicate that about 60% of the variation of the constructs is explained.

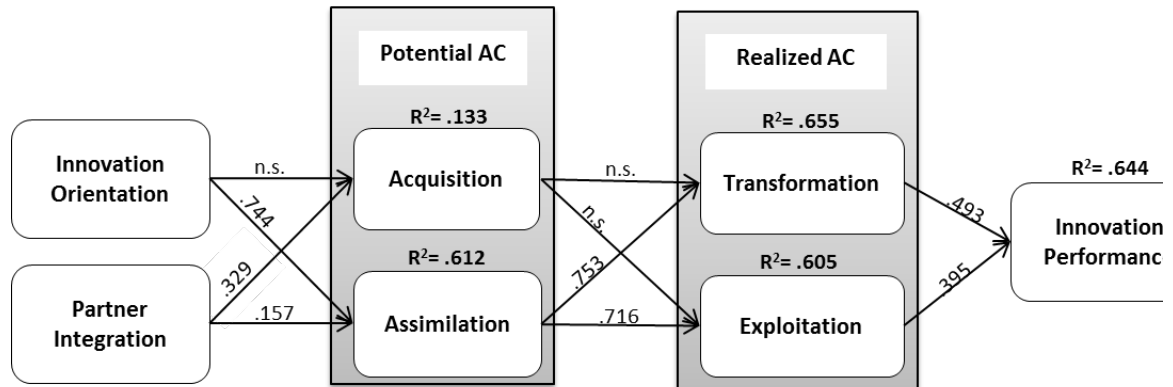


Figure 2. The research model of collaborative culture, absorptive capacity and innovation

## DISCUSSION AND IMPLICATIONS

The results suggest that external partners enable firms to tap new knowledge and are then still relevant to assimilate the knowledge with already existing internal knowledge. Assimilation, however, is mostly explained by an organizational setting of openness towards new ideas and innovation. The non-significant relationship between innovation orientation and acquisition suggests that openness is not a prerequisite to “go out” to find new knowledge, but rather a precursor to understand how new knowledge can be useful for the firm. This could be attributed to the fact that knowledge acquisition between DMOs and industry partners relies mostly on secondary information sources, given that DMOs do not directly come in contact with destination visitors. As such a sufficiently open innovation orientation culture is critical to the internalization of external knowledge and impacts the ability of the DMO to identify and incorporate this knowledge into the organization. The finding that realized absorptive capacity is solely driven by assimilation suggests that learning how new knowledge fits into organizational structures is an indispensable step to take advantage of new knowledge. Last, the performance of newly developed tourism services is driven by both the internalization of new knowledge through manuals and guidelines (transformation) and the exploitation of these new resources. This indicates that DMOs not only need to develop and update organizational rules and suggestions, but also need to actively take advantage of it. The significant relationship between transformation and innovation performance suggests that innovation itself is understood as an exploitation of newly gained knowledge, but also is the outcome of other activities following the new knowledge (previous exploitation).

Future studies need to identify if absorptive capacity is more a stepwise rather than a parallel process. Importantly, the influence of partners on the innovation process needs to be better understood; i.e. more clarity is needed how DMOs interact with their partners and how partner knowledge is tapped and integrated into organizational processes. Last, as partners are

not the only providers of new knowledge it is necessary to identify where else DMOs access new knowledge.

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